



## State of Tennessee

### Health Services and Development Agency

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DATE: June 21, 2018

TO: HSDA Members, Executive Director, and Staff

FROM: Thom Mills, HSDA Audit Committee Chair

SUBJECT: Audit Committee Report

On May 21, 2018 I met with Executive Director Hill. The purpose of the meeting was to review the October 25, 2017 Audit Committee meeting and the subsequent change to the charter, discuss management's risk assessment, internal controls and risk management process; code of conduct and conflict of interest policies; and the 2016 and 2017 Sunset Review process.

Since 2014, the Audit Committee has amended the Code of Conduct to reflect that suspected violations could be reported to the Audit Committee Chair in addition to the Executive Director, General Counsel, and Agency Chair; recommended that Agency members provide more detail regarding the factual and legal basis of its decisions in its motions; and most recently, voted affirmatively to amend the charter to permit agency members to serve two year terms instead of one for continuity of membership. If you accept this change to the charter, Audit Committee members would start a new two-year term instead of the customary one year, effective July 1. The Audit Committee will also need two new members and a new chairman since Mr. Grandy and I end our terms on June 30. We welcome the new appointees to attend a brief Audit Committee meeting once the Agency meeting is concluded. We plan to briefly discuss the implementation of the Motions Checklist which is the tool we asked staff to develop to assist members during the review of applications.

Ms. Hill has reminded staff of its responsibility for preventing, detecting, and reporting fraud, waste, and/or abuse. On behalf of the Audit Committee, I want to take this opportunity to share that same information formally with all Agency Members and with her.

In recent years, the accounting and auditing professions have revised standards and procedures for the identification and prevention of fraudulent activity. Fraud is generally defined as intentional misrepresentation or deceit to gain something of value. Fraud may include outright theft, the misappropriation of assets, or the misrepresentation of facts including financial statements.

A revised standard on fraud has been developed for professional auditors, and guidelines have been written to assist all managers – financial and nonfinancial – in deterring fraudulent activity. A number of professional organizations including the American Institute of Certified Public Accountants, the Institute of Internal Auditors, and the Association of Certified Fraud Examiners have developed these documents cooperatively.

These efforts will focus increased attention on the risk of fraud. They provide more specific direction as to the responsibility of both Agency members and staff in playing a role in fraud deterrence.

Because of these changes, management of any audited organization is now required to acknowledge to auditors that certain steps have been taken that will reduce the risk of fraudulent activity within the organization. As many of you know, the Division of State Audit, a unit of the Comptroller's Office, periodically audits the Health Services and Development Agency through the sunset performance review process. It may also perform a financial compliance audit should one be needed. To ensure compliance with these revised standards on fraud, I am asking on behalf of the HSDA Audit Committee that all board members and the Executive Director comply with the following requirements:

- Since fraud could occur anywhere, in either a programmatic or an administrative environment, any suspected fraudulent act should immediately be reported to the Audit Committee, Agency Chair, Executive Director, and/or the Division of State Audit in the Comptroller's Office. The executive director is directed to work with the Division of State Audit to ensure that that an investigation of suspected fraud is conducted.
- Agency Members and all staff are expected to be straightforward and honest in all communications with auditors.
- Agency Members and staff are encouraged to review the information at the following web links regarding the audit process:  
<http://comptroller.tn.gov/sa/commit.asp>  
<https://www.tn.gov/finance/fa-accounts-risk-managment.html>  
<http://comptroller.tn.gov/sa/pdf/20180104StateAuditGuide8x11CordellHull.pdf>

On behalf of the Audit Committee, I want to thank all of the Agency Members for their interest in Agency operations.